



Gascon Mar Ltd.

to be m
STEVE
PHIL

November 10, 1995

Mr. Thomas A. Overturf
McDonnell Douglas Realty Company
4060 Lakewood Boulevard
Long Beach, CA 90808

Re: McDonnell Douglas & Lockheed Martin Properties, Torrance, California

Dear Tom:

The following represent my thoughts on the above:

- (1) It appears from our conversation that in order to commence development of your site, you need an anchor user. Apart from Douglas Aircraft requirements, the only realistic chance of getting an anchor user is a retail developer or user.
- (2) If you do not commence development right now, you will lose the opportunity to do a retail deal, with the rapid absorption and market credibility benefits such a deal confers, and you will also lose the undoubted benefits of processing a major project such as yours in what is a very desirable time frame. In addition, you end up with a barrier of retail backside separating you from the high quality development to the west.
- (3) My experience in this market, as well as everybody else's, tell me that any Power Center development needs a major anchor user, and the only anchor user in this market is WalMart. Home improvement is unlikely, Kmart and Target are in the market already, as is Price/Costco; major electronics such as Incredible Universe also unlikely due to time frame and existing market commitments. I fully believe that Vestar's representation that they have exclusive control of WalMart is correct, considering past deals they have done and staffing relationships. Obviously, we would request proof of this.
- (4) As to price, apart from Kuhle's comments on the \$10 to \$12 dollar range, they made us a 40 acre offer a year ago on our Carson Town Center project at the high end of that range (for a less desirable site). Because of prior commitments to Kmart, we did not go ahead. Based on his comments, and based on that offer,

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this price would also assume some buyer contribution to offsites. In the context of our pro forma, where the seller pays the offsite costs, I therefore believe that a price at around \$12 per square foot could be achieved; the participation upside above the 12% might also be attractive.

- (5) I would recommend that the seller be responsible for offsite work and for negotiation of entitlements, and particularly for receiving any City benefits. It would be different if they were doing a stand alone retail development, but as this is part of a much larger project with significant offsite and entitlement issues, and also significant benefits to the City, it does not make sense to piecemeal out the entitlement or City participation issues. Therefore, the offer should reflect that.
- (6) I do not believe it is either cost effective or entitlement approval effective to entitle only the retail parcel. I do not think the entitlement costs will drop significantly, since the same studies have to be done, although there would be about a \$30,000 saving in processing costs. I also believe that you are much less likely to obtain benefits from the City by processing it in this way, because they cannot make a case for the overall benefits of the project that they commented on in our meeting last week. Just because you process and have approved a vesting tentative map does not mean that you have to then proceed ahead with development of the most difficult portion, where the environmental issues exist, nor does an EIR on a tract map require any heightened scrutiny of the environmental condition of the soils or groundwater, since the remediation is a separate project to the development, and anyway is CEQA exempt.
- (7) With regard to the existing buildings and environmental issues, we are currently overlaying the buildings on the plan, but it appears from a cursory review that the retail property line might have to be shifted northwards about 100 feet to enable only the first row of buildings (31, 61 and 67) to be demolished and to avoid environmental hotspots. This would leave it at approximately an 850 foot depth, which Kuhle said is not a problem. Then, the southerly property line on the west side of the site could be shifted southwards to pick up the extra acreage and to get the greater depth required for WalMart. Similarly, the curve on the north-south street would also be shifted southward.
- (8) With regard to Lockheed Martin, while we obviously want to continue to try and work with them, I believe it will be difficult while John Smith's irrational over confidence and inflexibility call the shots, but I sense that Tom Wolff and Bill Snowden are more attuned to the reality of their position, and the benefits of cooperating on the land plan in this regard, and I will contact Bill next week.

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Although our landing Vestar will obviously be a major psychological set back for them, I do not think that they will suffer financially if they cooperate with us, and in fact, I think it may even be to their benefit, particularly if Vestar is only offering a net of \$10.35 per square foot after City reimbursements (which are unlikely) on their property. Vestar, for the reasons stated above, is the most logical buyer (and Lockheed Martin realize that). I think by participation in our plan, even as currently drawn, they will achieve a higher value since the local service property should command about \$15 per square foot even in today's market.

- (9) The primary assurance Vestar will need would be that subject to force majeure MDRC moves ahead diligently and in good faith with demolition and remediation. Obvious milestones, if they require milestones, could be filing of an application, and commencement and completion of demolition. Based on your comments and your environmental reports which I have reviewed, there appear to be limited environmental problems on the retail parcel, and certainly nothing worse than Lockheed Martin still has to overcome to turn over their entire site. However, the relocation of the uses in these buildings on the retail site and the demolition and remediation of these sites are as critical a path as the land use entitlement process and need to be studied immediately and in much greater detail.

In summary, this scenario has the potential of playing out exactly the way we have all discussed. I believe that it is in McDonnell Douglas' best interest to move ahead on a Vestar commitment, since it gets the project off the ground. The benefit of this is that you can take advantage of one large (retail) use to absorb a chunk of land, which will not be there if Lockheed Martin goes first, and you can also take advantage of City benefits and incentives to get a master plan property like this on stream at this time, benefits which did not exist several years ago and may not exist several years hence.

Finally, by moving ahead now on this plan based on our layout, you end up with a much better quality of development which is linked to the attractive campus environment to the west, as opposed to having a wall of intrusive retail separating you from this to the detriment of your property. The phasing of the project with the retail at the front going first (possibly together with the warehouse at the rear) minimizes the necessity to incur environmental costs, although once again there are much greater incentives for the governmental agencies to expedite the remediation approval if it is tied in with the large project (this was a highly significant factor on our Golden Eagle Refinery site because of Super K's interest and facilitated our unique agreements with the State).

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Please let me know if there is anything else you need.

Yours very truly,

GASCON MAR LTD.

A handwritten signature in black ink, appearing to read 'Allan W. Mackenzie', with a long horizontal stroke extending to the right.

Allan W. Mackenzie
Partner